TD/B/41(2)/5
TD/B/WG.6/3

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Report of the Ad Hoc Working Group on Trade, Environment and Development on its first session

held at the Palais des Nations, Geneva,
from 28 November to 2 December 1994

UNITED NATIONS

UNITED
NATIONS

TD

United Nations Conference
on Trade and Development

Distr.
GENERAL

TD/B/41(2)/5
TD/B/WG.6/3
11 January 1995

Original: ENGLISH

Report of the Ad Hoc Working Group on Trade, Environment and Development on its first session

held at the Palais des Nations, Geneva,
from 28 November to 2 December 1994

GE.95-50143 (E)

CONTENTS

Chapter		Paragraphs
	Introduction	1 - 7
I.	International cooperation on eco-labelling and eco-certification programmes	
	Market opportunities for "environmentally friendly" products (agenda items 3 and 4)	8 - 72
II.	Proceedings of the 4th closing plenary meeting	73 - 77
III.	Organizational matters	78 - 83

Annexes

I.	Provisional agenda for the second session of the ad hoc Working Group
II.	Chairman's summary
III.	Membership and attendance

INTRODUCTION

1. The first session of the ad hoc Working Group on Trade, Environment and Development, established in accordance with a decision of the Board taken at the resumed second part of its fortieth session in May 1994, was held at the Palais des Nations, Geneva, from 28 November to 2 December 1994. In the course of the session, the ad hoc Working Group held four plenary meetings. 1/

Opening statement

2. The **Officer-in-charge of UNCTAD** welcomed participants to the first session of the ad hoc Working Group which was one of the three new intergovernmental bodies established by the Trade and Development Board in May 1994. He observed that the topicality of trade and environment issues was clearly demonstrated by the wide-ranging representation at the session.

3. The relationship between trade and environment had been the object of considerable international attention recently. In the week prior to the current meeting an UNCTAD/UNEP informal "High-level Meeting on Trade, Environment and Sustainable Development" had taken place. The secretariats of UNCTAD and UNEP were jointly preparing a report of that meeting for the third session of the Commission on Sustainable Development in April 1995. The report would soon be available. The informal High-level Meeting had made extensive reference to UNCTAD's conceptual, analytical and empirical work, which included country case-studies on trade and environment linkages, being carried out with the support of UNDP and UNEP, and the work on the impact on competitiveness of environmental policies, standards and regulations, as well as the two substantive issues on the ad hoc Working Group's first agenda, namely eco-labelling and "environment-friendly" products. Moreover, the importance and timeliness of the Working Group had been stressed. It was encouraging to note that the conclusions and recommendations in the secretariat's report prepared for the current meeting were broadly in line with the solutions suggested at the High-level Meeting.

4. Recalling the broad parameters of UNCTAD's mandate and role in the field of trade and environment, he stressed the development focus of UNCTAD's work. In the terms of reference of the ad hoc Working Group, this focus had been clearly identified as: "policy analysis and debate, conceptual work, the building of consensus among member States on the interaction between environmental and trade policies, the dissemination of information to policy makers and encouragement and provision of assistance in capacity-building". Furthermore, the decision to establish the ad hoc Working Group had emphasized the need to pay "particular attention to the problems and special circumstances of the developing countries".

5. UNCTAD was implementing a comprehensive programme of work initiated by UNCTAD VIII and as part of the follow-up to the conclusions and recommendations of the United Nations Conference on Environment and Development. In March 1993, the Trade and Development Board had adopted a report on specific plans for the implementation of Agenda 21 and had also decided to consider certain broad policy aspects of trade and environment issues at the first part of the fortieth and forty-first sessions. Hence,

in its deliberations, the ad hoc Working Group could profitably concentrate on an in-depth consideration of the key issues, drawing on valuable national experience. In this way the Working Group could make a substantial contribution to preparations for UNCTAD IX which were already under way.

6. Useful inputs to the work of the Group could come from UNCTAD's technical cooperation programme in the area of trade and environment. In this connection, a workshop on eco-labelling had been held in Geneva in June 1994 attended by practitioners and experts from both developed and developing countries. Its discussions had centred on the results of conceptual and analytical work, in particular research studies in developing countries and countries in transition. Further workshops will be organized within this programme, allowing exchanges of views and dissemination of information on the different items in the terms of reference of the ad hoc Working Group. The Trade and Development Board had concluded that informal inter-sessional activities could be useful to the deliberations of the Working Group and the secretariat was seeking suggestions in this regard from the Group.

7. As some of the work undertaken in the Standing Committee on Commodities was also quite relevant to the subject under discussion, he drew attention to the UNCTAD secretariat's report TD/B/CN.1/25 and to the agreed conclusions set out in TD/B/CN.1/L.8. Many delegates to the previous week's High-level Meeting had commended the secretariats of UNCTAD and UNEP on their fruitful and practical cooperation. In this way the two institutions were exploiting their comparative advantage to the full, in accordance with the mandates and expertise of each, and avoiding duplication. The UNCTAD secretariat had likewise been working closely with the GATT/WTO, OECD, ISO and other international organizations. UNCTAD would continue to cooperate with the Commission on Sustainable Development, particularly in view of its role as task manager for sustainable development and trade matters in the Inter-Agency Committee on Sustainable Development of the Administrative Committee on Coordination.

Chapter I

INTERNATIONAL COOPERATION ON ECO-LABELLING AND ECO-CERTIFICATION PROGRAMMES

(a) Comparative analysis of current and planned programmes, with a view to discussing concepts such as mutual recognition and equivalencies;

(b) Examination of possible ways to take into account the interests of developing countries in the elaboration of eco-labelling criteria

(Agenda item 3)

MARKET OPPORTUNITIES FOR "ENVIRONMENTALLY FRIENDLY" PRODUCTS

Ways and means to define and certify environmentally friendly products

(Agenda item 4)

8. For its discussion of these items, the ad hoc Working Group had before it the following documentation:

"Eco-labelling and market opportunities for environmentally friendly products", Report by the UNCTAD secretariat (TD/B/WG.6/2);

and

"Identification of means by which the competitiveness of natural products with environmental advantages could be improved: Reducing the environmental stress of consumption without affecting consumer satisfaction", Report by the UNCTAD secretariat (TD/B/CN.1/25).

9. In opening the discussion on these two items, the **Officer-in-charge of the International Trade Division** said that the two were closely related. Eco-certification was one way that the environmental aspects of products could be brought to the attention of consumers. While such an approach was a useful "soft policy option" for environmental protection, eco-labelling programmes had, however, raised concerns among developing-country producers on both environmental and trade fronts. The Working Group might wish to examine possible ways to reconcile eco-labelling with the environmental objectives of interest to both importers and exporters, particularly for exports from developing countries. The secretariat's report offered a number of suggestions, including greater transparency, establishment of international guidelines, acceptance by developed countries of different, but "equivalent", criteria reflecting environmental conditions in developing countries, and mutual recognition. As regards transparency, it was worth considering to what extent the experience acquired in dealing with standards and regulations in the GATT context, for example through the Agreement on Technical Barriers to Trade, could help in avoiding unnecessary adverse effects on trade. There

were, however, complex aspects of eco-labelling, such as the life-cycle approach, which pointed to the need for a broad concept of transparency and involvement of the developing countries in the eco-labelling process covering products of special export interest to them. The Working Group might wish to make concrete proposals on this point. The possibility of developing international guidelines or broad principles for voluntary eco-labelling might also be explored. Work on this was proceeding within ISO. "Equivalencies" and "mutual recognition" were complex issues on which UNCTAD was undertaking joint work with UNEP. The concept of equivalent criteria could serve a twofold purpose. First, the importing country might accept the environmental undertakings of the exporting country as being "equivalent" to compliance with its own criteria. Secondly, the concept of equivalency could be considered a condition for mutual recognition. Discussions on mutual recognition would naturally refer to eco-labelling implemented by countries at different levels of economic development. The Working Group could focus on the steps necessary for building up mutual confidence. He said that work on internationally agreed guidelines for eco-labelling, as already mentioned, could also help in reaching a goal of mutual recognition. It should be borne in mind that the discussions in the Working Group also contributed to the deliberations within ISO, GATT/WTO and OECD.

10. Turning to market opportunities for "environment-friendly" products, he said that, in accordance with the terms of reference, work in this area should initially concentrate on how to define and certify such products. As the secretariat report pointed out, not only were there difficulties in defining environment-friendly products, but consumers were concerned over the credibility of environmental claims made by manufacturers. Nevertheless, trading opportunities for developing countries existed for such products. In order to market environment-friendly products successfully, developing countries could work at the firm level, as well as at the national and international levels. Third-party eco-certification could help in substantiating claims made for products. Another task of the Working Group was to identify areas where technical cooperation should be strengthened. The emerging schemes in developing countries could benefit from the work of eco-labelling agencies in developed countries and ISO in the search for effective eco-labelling systems. In closing, he noted that the role of this new Working Group was particularly challenging, as trade and environment policies interact in "dynamic and untested waters".

11. The representative of the **General Agreement on Tariffs and Trade** (GATT) stated that GATT's work on eco-labelling had been primarily developed in the context of its Working Group on Environmental Measures and International Trade. This work had been carried forward into the transitional Sub-Committee on Trade and Environment, pending establishment of the WTO Committee on Trade and Environment. Discussions in the former group had concentrated on trying to identify the trade effects of eco-labelling schemes and to analyse the extent to which they might differ from other technical regulations and standards. The work had been assisted extensively by information supplied by contracting parties on their own national labelling schemes, as well as by the research and analysis conducted in UNCTAD and OECD. Although the usefulness of eco-labelling schemes for promoting environmental objectives was appreciated, it was considered that even voluntary eco-labelling schemes could have a major influence on conditions of market competition. Effective access

for foreign suppliers to domestic labelling schemes was critical. This meant the opportunity to participate and raise their trade concerns in the process through which product criteria and threshold levels were decided. It was also observed that both the choice of products to be labelled and the criteria that a product must meet so as to obtain an eco-label tended to reflect local environmental conditions. This could pose difficulties for foreign producers or result in positive environmental qualities of imported products being overlooked. The importance of basing the criteria on sound scientific evidence had been stressed.

12. She noted that many GATT contracting parties had pointed to problems of proliferation of a variety of different unilateral schemes, making it difficult for suppliers from developing countries to adapt their products to each scheme. Multilateral efforts towards harmonization of eco-labelling programmes and criteria or practices based on the concepts of "equivalence" or "mutual acceptance" would be welcome. Eco-labelling criteria based on processes and production methods might prove particularly difficult and even environmentally inappropriate for overseas suppliers to meet. GATT contracting parties agreed that there were legitimate reasons for diversity in environmental regulations across countries. If eco-labelling schemes were mandatory, this could raise questions about the GATT-legality of such schemes under Article III of the GATT. Other types of schemes proposed, such as not denying market access to unlabelled products but, nevertheless, assessing a tax on them, could also raise questions of GATT-legality under the same article.

13. The newly created WTO Committee on Trade and Environment had identified the following issues for further analysis: the practical distinction between voluntary and mandatory measures and their implications for trade; the scope for standardization or harmonization and mutual recognition; complications that could arise for trade through the setting of requirements in terms of process and product methods rather than product characteristics; and special difficulties and costs confronting small-size foreign suppliers, in particular from developing countries. In addition, the WTO Committee would look at the relevant GATT rules and instruments to determine whether any revision or adaption was required. The Agreement on Technical Barriers to Trade had been established to provide transparency and notification disciplines on technical regulations, standards and conformity assessment procedures. Following significant revision of the Agreement, the definitions for technical regulations and standards now included process and production methods relating to the final characteristics of the product, whereas previously the definitions had covered only the final characteristics of products. Whether voluntary eco-labelling schemes were covered under the Technical Barriers to Trade Agreement was still being debated and there had only been one scheme that was notified under the provisions of this Agreement. Whether voluntary schemes were covered by the Agreement would eventually have to be determined either by the Committee on Trade and Environment, or in the Technical Barriers to Trade Committee itself. The Agreement encouraged the use of international standards where appropriate for local needs, accepting equivalent standards and mutual recognition. It laid down rules and principles of compliance by GATT contracting parties. These included the most-favoured-nation and national treatment obligations, the obligation not to create unnecessary obstacles to trade and the obligation to assure a high degree of transparency.

Several of the provisions of the revised Agreement responded to some of the trade-related concerns which had been noted concerning eco-labelling schemes, in particular lack of information and insufficient participation of developing countries in the process of setting criteria. Voluntary standards were covered by the Code of Good Practice for the Preparation, Adoption and Application of Standards (Annex III of the Technical Barriers to Trade Agreement). The Agreement further supported other approaches to harmonization such as through the acceptance of equivalent standards among countries, based on reciprocity and the mutual recognition of conformity assessment. It furthermore encouraged Members to provide technical assistance to other Members.

14. Finally, she stressed that WTO competence for policy coordination in the area of trade and environment was limited to trade and that the obligations of the GATT and Technical Barriers to Trade Agreements applied primarily to the trade effects of technical regulations and standards that were not based on international standards.

15. The representatives of the **International Organization for Standardization** (ISO) stated that the ISO Technical Committee on Environmental Management, TC 207, set up in 1993 to develop common international standards over a wide range of topics related to environmental management, had established six subcommittees and a working group with responsibility for specific aspects of environmental management. This included: environmental auditing, environmental labelling, life-cycle assessment, and terms and definitions. Owing to the importance of the issues involved, high expectations had been placed on the work of the Committee. However, developing countries' participation in this work had been very limited.

16. On the issue of technical cooperation, ISO could provide support to developing countries through the organization of seminars and the dissemination of technical publications. In addition some funds could be made available to support developing countries' participation in ISO's work.

17. The representative of the **United Nations Environment Programme** (UNEP) stated that its work on eco-labelling was aimed at ensuring that the environmental goals of eco-labelling were achieved without having an unfair impact on trade. This could be done by catalysing and coordinating the development of guidelines on environmental criteria for eco-labelling. For many developing countries, the proliferation of eco-labelling schemes, as well as the tendency of such schemes to focus on domestic products and domestic standards posed serious problems. A possible solution would be to base, whenever possible, eco-criteria on international environmental standards. This approach was consistent with the principles of the Technical Barriers to Trade Agreement which called for the use of international standards. The question of whether eco-labelling schemes were covered by this Agreement had not yet been answered clearly. Mutual recognition of eco-labelling schemes would require that the eco-criteria be regarded as equivalent; therefore the selection and definition of eco-criteria were central to determining whether national schemes were equivalent and, hence, worthy of mutual recognition. Most eco-labelling schemes utilized a limited life-cycle analysis and production-and-processing-methods-related criteria (PPMs). An important point to note when discussing PPMs was that it was becoming increasingly difficult

to distinguish between standards based on PPMs and those based on final product characteristics, particularly in view of technical advances in chemical residue detection. Two issues had to be addressed to ensure that eco-labelling schemes achieved their environmental purpose without imposing an unfair burden on international trade. First, all affected parties had to have the opportunity to participate in the process of selecting and defining the eco-criteria. Secondly, the criteria had to be based on sound scientific data and reflect varying environmental, economic and social concerns in different countries. UNEP was considering convening an expert group to look at the methods and basis of selecting and defining the environmental criteria for eco-labelling. Finally, she stated that, given UNEP's environmental expertise, and UNCTAD's trade expertise, the collaboration between the two organizations would continue to provide useful results.

18. The representative of the **Organisation for Economic Cooperation and Development** (OECD) stated that its Joint Session of Trade and Environment Experts had been meeting regularly since 1991. Life-cycle management and trade was one of the items on this Group's ten-point work programme; under it they would review the trade implications of the use of life-cycle analysis and management, including the potential trade impacts of eco-labelling. Based on the outcome of meetings of the joint sessions of Trade and Environment Experts, and the OECD workshops on trade and environment, the main trade concerns had been identified and different approaches to dealing with the potential adverse effects of eco-labelling on trade would be further explored. The relatively recent trend for eco-labelling programmes to be based on more extensive life-cycle criteria, specifically production-related criteria, was at the source of trade concerns with respect to eco-labelling schemes. Problems could arise when eco-labels were based on production-related criteria and applied to some highly-traded products such as paper and textiles; the question of recycled paper and its different implications often depended on the country in which eco-labelling was applied.

19. With reference to TD/B/WG.6/2, she reiterated the problems related to the steps involved in the development of an eco-label and the role of a life-cycle approach in its elaboration. It was not easy to compare, in a comprehensive manner, the different environmental effects during a product's life-cycle. It was difficult to establish a consensus regarding the overall environmental impacts of products (c.f. TD/B/WG/7/2, para. 23) and there was the problem of trying to prioritize among impacts on the environment those of a product at different points in its life-cycle.

20. With reference to the trade implications of eco-labelling, in general, eco-labelling programmes had two potential types of trade effects, depending largely on their design and implementation. The first related to technical barriers to trade, and the second to impacts on costs and competitiveness. In this context, the importance of transparency, consultation, access, harmonization, financial and technical assistance and capacity-building had to be stressed.

21. As for possible approaches to deal with process and production methods criteria, or PPMs, greater international coordination would be needed in the development of criteria for highly traded goods. One option suggested was to exempt foreign producers from the requirement to comply with PPM-based

criteria. However, to exempt imports from requirements regarding environmentally-sound production or design would set domestic producers at a competitive disadvantage and could undermine the environmental life-cycle initiative and its benefits. Another approach that would avoid implicit trade discrimination and take account of environmental conditions and preferences of the producing country would be for importing countries to recognize as equivalent, albeit not identical, in their ecological effects, the PPM standards or practices of the exporting country. However, to assess whether the PPM standards or practices of the producing country were equally friendly to its domestic environment implied establishing a procedure of verification. Another suggestion was mutual recognition of the eco-labels of trading partners. A framework could be established whereby importing countries would accept the PPM-based criteria or perhaps all criteria of the eco-labels of exporting countries. The harmonization of testing and certification techniques and procedures would facilitate mutual recognition, which could be based on broad international guidelines developed within the ISO context. Some type of international monitoring or certification procedure might still be needed to ensure that labels were credible and broadly equivalent; otherwise, widespread mutual recognition could undermine the status of national programmes.

22. The last proposal mentioned concerned international eco-labels for some key products with the potential to cause trade frictions and products of special export interest, particularly to developing countries, such as paper, textiles and footwear. Producing and consuming countries could participate in determining the criteria for an eco-label that reflected the environmental conditions and requirements of several countries; the eco-label could provide broad guidelines on environmentally-acceptable production methods (e.g. for paper it could include criteria based on sustainable forest management). An accredited international eco-label could help promote "green" trade for particular commodities, especially resource-based products from developing countries, and ease trade frictions resulting from concern about global resources.

23. The representative of the **Food and Agriculture Organization of the United Nations** (FAO) told about work on commodity trade and environment issues in FAO, specifically referring to "environment-friendly" commodities. Within FAO, issues associated with trade and environment were dealt with in the Committee on Commodity Problems. This Committee, with its 11 intergovernmental commodity groups, had paid increasing attention to environmental issues in recent years. At its fifty-ninth session in 1993, the Committee had reviewed issues related to trade, environment and sustainable agricultural development. It was recognized that unilateral action by individual countries to reduce environmental stress might entail loss of market shares unless other countries also pursued similar policies; hence it would be advantageous for all countries to introduce appropriate environmental policies. The FAO Committee had recognized that there was a lack of solid data in this area and it encouraged its intergovernmental groups to undertake commodity-by-commodity work on economic assessment of environmental impact and related trade policy issues.

24. In FAO, the close attention paid so far to environmental issues associated with commodity trade had been in the area of raw materials, particularly fibres, which faced strong competition from synthetic materials. Analysis had indicated the environmental superiority of natural fibres over synthetics, although there were some avenues for improvement in the production of natural fibres. The commodity groups in FAO responsible for these fibres were seeking ways in which to exploit their environmental advantage in the market. To this end, an International Consultation on Jute and the Environment had been held in The Hague in 1993. At that meeting the opportunities for marketing environment-friendly jute and kenaf products were reviewed. The same meeting recommended that promotion activities be undertaken in consuming countries, that promotion of natural fibre products should be directed to wider forums than in the past, and that links should be established between manufacturers and consumers. In this context, it was reiterated that natural fibre products could not be promoted solely on the basis of their environment-friendliness, and that quality, safety and price were all part of the package of attributes important to consumers.

25. The FAO Intergovernmental Group on Jute acts as a focal point for information on packaging legislation. In this context, it had been pointed out that some legislation directed at reducing the volume of waste had created trade distortions in environment-friendly packaging materials. The 1993 Meeting on Jute and the Environment had been followed by an Expert Group Meeting on Diversified Applications of Bio-resources such as jute, kenaf, coir, sisal and allied fibres, in Bangalore, India, in October 1994.

26. In addition to its work on natural fibres, FAO was also promoting trade in environment-friendly commodities other than fibres. Work had been undertaken in the Hides and Skins Sub-Group, the Intergovernmental Group on Meat and the Intergovernmental Group on Wine and Vine Products. Moreover, studies on grains, rice and oil-seeds were under way.

27. Finally, he stressed the importance of close collaboration among international organizations working on trade and the environment, in order to maximize the overall benefits and avoid duplication of efforts.

28. The representative of **Indonesia** observed that international cooperation on eco-labelling and eco-certification programmes was still a relatively new subject and that, in view of the potential for adverse impacts following the introduction of such programmes, mostly launched by developed country counterparts, an adjustment period was needed. He said that eco-labelling, in practice, could act as a non-tariff barrier to trade if it discriminated against foreign producers, especially those of developing countries. There were difficulties in obtaining information on different programmes of eco-labelling, not to mention the cost of adjustment and various requirements of the different markets of the developed countries. Efforts would have to be made towards the establishment of international guidelines on eco-labelling. So as to avert any adverse trade effects of eco-labelling, the transparency of the new eco-labelling programmes should first be improved. This included timely and accurate information on the newly launched programmes. Secondly, the environmental criteria should be based on the principle of shared but differentiated responsibilities, as enshrined in the Rio Declaration. The acceptance of different but "equivalent" criteria should take into account

environmental conditions in developing countries. Finally eco-labelling programmes should be accompanied by increased market shares for exports from developing countries.

29. Regarding market opportunities for "environment-friendly" products, he pointed out that it should be borne in mind that no product was, in fact, absolutely friendly to the environment. Thus environment-friendly products were only relatively so. There was, moreover, still a need to explore possible credible mechanisms for certifying a product's friendliness towards the environment. The exchange of national experiences could make a valuable contribution to the work of UNCTAD in this particular field. Indonesia was in the preliminary process of introducing and disseminating the concept of environment-friendly products to the domestic business community. In this context, standard production and processing methods were an important tool for promoting such products. To this end, the Indonesian Standardization Council, in cooperation with the Ministry of Environment, had made concerted efforts to accelerate the implementation of standards, including environmental standards, by domestic industries. The existing international cooperation mechanisms certainly could play a vital role in efforts to integrate trade and environment policies into the framework of national policies for sustainable development. At the national level, the exchange of information, consultation and other technical cooperation should be enhanced with the support of UNCTAD and other United Nations agencies, so as to assist developing countries in their efforts to reduce adverse effects of environmental measures related to trade, in general, and to establish national policies in this particular field.

30. Finally, he suggested that the Ad Hoc Working Group undertake preparation of a study of possible international guidelines and coordination mechanisms on eco-labelling programmes, as a way to assess the different schemes.

31. The representative of **China** said that the UNCTAD report had offered a basic understanding of eco-labelling and of its impact on exports from developing countries as well as suggesting practical solutions. China recognized that trade and environment should be mutually supportive. On the one hand, trade measures for environmental purposes should not conflict with the rules and principles of the multilateral trading system and should be employed on the basis of transparency, justifiability and non-discrimination. On the other hand, countries differed to varying degrees in environmental policy measures and regulations, owing to different levels of economic development as well as specific national situations. Therefore, it should be expected that one country's environmental policies and practices might not be necessarily appropriate for application to other countries. From a trade point of view, environmental measures must not serve as a means of trade protection. Eco-labelling was a complex issue. Therefore, the environmental and developmental conditions of the producing countries should be taken into account in the determination of criteria for eco-labelling, particularly for process and production methods (PPM) criteria. Improved transparency was needed; this included the participation of producing countries in the work towards this end. International organizations, such as ISO, UNCTAD and GATT/WTO should strengthen their cooperation and coordination on this issue. The developed countries should share their experience with, and provide assistance to, developing countries in this respect. He went on to describe

China's own experience in this field and mentioned that, in May 1994, an environmental labelling system for six product categories had been established.

32. The representative of **Pakistan** said that the major global environment problems were primarily due to the very high level of carbon dioxide and chlorofluorocarbons emissions by developed countries. The level of emissions in the developing countries was drastically less. Eco-labelling, although an attractive idea, had the potential to be used for trade protectionism. It would be unwise to try to harmonize product standards in a world which was so sharply divided in terms of economic and technological advancement. For example, a coal-dependent developing country could not conveniently resort to fuel-switching and thus reduce its annual energy burden. High standards of pollution control and reduction in emissions per unit of product processed in some developed countries had been achieved at a considerable cost, which the developing world could not afford. Neither did developing countries have the financial means to introduce new technologies through government-assisted schemes. Under the emerging eco-labelling requirements, the choice of such technologies would become increasingly important as the exports of developing countries would be expected to comply with cleaner production systems. He questioned whether eco-labelling was a panacea for controlling bad manufacturing practices and ensuring safe products and processes, or whether it might trigger a generation of problem-solving devices which might cause other unknown problems? He also questioned the trade-off between different environmental criteria. For example, an industry might have cut down its sulphur dioxide emissions through flue-gas desulphurization and solved locally the acid deposition problem but what about the carbon dioxide emissions that increased in the process of using such end-of-the-pipe technologies and threatened the global environment with climate change? UNCTAD should be mandated to look into this issue.

33. He stated that if eco-labelling meant enforcing environmental regulations and achieving emission levels equivalent to those existing in the developed world, then developing countries would require heavy financial and technological investment. Enforcing the stringent environmental standards desired by the developed countries would mean lower productivity levels and slower economic growth in the developing countries. Developing countries' manufacturers, unable to get a label for their products, would find themselves shut off from consumers who were sensitive to the environmental characteristics of products. To solve this impasse, a two-stage life-cycle analysis had been suggested in the UNCTAD secretariat report, i.e. "cradle to export-border" and "import-border to grave".

34. In closing he observed that, in the context of developing countries, the environmental friendliness of a product should reflect: whether the product had created more jobs or replaced more people in a production process; whether the product had used more indigenous resources or relied more heavily on external inputs; whether the production mechanism had benefited the local community and added to its quality of life or made it poorer.

35. The representative of **Venezuela** said that possible negative trade effects of environmental policies could be avoided through international cooperation. The same was true in the case of eco-labelling. Eco-labelling could have

negative trade effects. The increasing use of life-cycle analysis could involve practical and conceptual problems. For example, differences across countries in values and environmental priorities made the application of process-related eco-labelling criteria problematic. Criteria related to process and production methods (PPMs) also posed the problem of extraterritorial application of environmental criteria. Solutions sought through international cooperation should be based not only on technical considerations but also on a clear political understanding between developed and developing countries. The secretariat's report provided orientations for possible solutions. Among those suggested mutual recognition seemed preferable. In this context, option (b) presented in TD/B/WG.6.2 paragraph 67 appeared particularly useful. According to this option, product-related criteria could be developed by the importing country, whereas compliance with the process-related criteria developed by the eco-labelling programme in the exporting country could be a basis for awarding the label of the importing country's programme. However, special attention should be given to cases where there were transborder or global environmental effects, which needed to be addressed bilaterally or multilaterally. He added that developing countries could perhaps be exempted from certain process-related criteria and that it could be examined whether preferential tariff treatment for "environment-friendly" products was feasible. He concluded by stressing the importance of technical assistance.

36. The representative of **Egypt** commended the secretariat for the high quality of the background documentation. Eco-labelling was a complex issue that gave rise to many unanswered questions. A suitable solution on paper could prove unworkable in practice. The setting of criteria for awarding eco-labels often required judgements concerning the whole life-cycle of a product, especially on its production process. When applied to domestic products, these criteria would provide consumers with useful information about the product concerned. However, where international trade was used to transfer environmental standards created in one country for solving its specific problems onto other countries with different problems and possibly different priorities and choices, one ought to ask why a country should export the values, choices and priorities embodied in its standards to another country, what would be the environmental impact of such action and what would be the impact on trade and global welfare. Was the unmanaged environmental problem becoming a trade problem? Countries with different environmental and economic endowments needed different environmental policy approaches adapted to their different conditions and reflecting their own economic, social and environmental priorities. The Rio Declaration states this fact in its principle 11. The OECD did the same in its note on the implementation of the "polluter pays principle". The environmental impact of production normally depends on where the production takes place. If the production activities are well-spaced, the natural absorptive capacity of the environment may be able to cope with the pollution impact. Ability to cope with pollution is simply a natural comparative advantage, comparable to having a warm climate or a rich mineral stock. To argue that a corresponding environmental standard in a country was unfairly low would be equivalent to arguing that some countries were unfairly warm or unfairly fertile. In addition, countries may have different environmental standards because they have different levels of income. As a consequence, poor countries might be more willing to accept

lower environmental standards than rich countries. In this they might be following national self-interest and the environmental standards which were allocatively efficient for them.

37. He questioned the impacts of eco-labelling schemes on the environment. Eco-labelling schemes would be environmentally counter-productive if they were used to impose environmental standards on developing countries regardless of their own respective environmental problems or if they were intended to work as a trade barrier to developing countries' exports. He presented an economic rationale showing why even when eco-labelling schemes were really meant to achieve a certain environmental goal, they could have a negative environmental impact. Eco-labelling could surely lead to a negative demand for foreign producers and undoubtedly create a barrier to market entry for their products. Even if the same standard were set for both domestic and foreign producers, there might be de facto discrimination because of unequal access to environment-friendly technology. Moreover, production standards could be set in ways that eased compliance for home producers but not for foreign producers. Access to the labelled segment of the market could increase costs for all firms but if domestic firms were initially closer to meeting the standard, their foreign rivals would face a relatively greater increase in costs. The criteria for environment-friendliness might then conflict with comparative advantage in the determination of trade. If environmental standards changed in the future, producers in developing countries might find that after having gone to the expense of obtaining a label, a sudden change in environmental science rendered the standard invalid forcing them to begin the whole process again.

38. He stated that to try to solve environmental problems through non-environmental measures was not a useful approach, as this might generate additional problems. Measures to improve the environment in developing countries should include: (a) poverty eradication; (b) transfer of "green" technology; (c) rich nations financing poorer ones in order to help them adjust environmentally; and (d) giving developing countries a chance to develop and grow by allowing them better access to developed countries' markets. Such an approach would make it easier to apply confidence-building measures aimed at achieving mutual recognition of the various eco-labelling schemes.

39. The representative of **Bangladesh** commented on the background documents prepared for this meeting. He said that eco-labelling programmes could discriminate against foreign producers and act as a non-tariff barrier to trade. The coexistence of different eco-labelling schemes might compound problems, particularly for the developing countries, as the costs of adjustment for firms wishing to comply with eco-labelling criteria would be significant. Therefore, the international community might think of harmonizing the eco-labelling schemes so as to minimize the difficulties of developing countries' exporters. The best response could be to agree on some minimum international standards for exports and imports.

40. The secretariat's report (TD/B/CN.1/25) described how natural products were in a better position to cope with environmental requirements. The document TD/B/WG.6/MISC.2 had touched on the problems faced by developing countries in meeting eco-labelling requirements and showed the positive nature of eco-labelling.

41. The purpose of technical cooperation was to increase awareness and understanding of the complex linkages between trade, environment and development. In his view, the programme followed the "soft" option of dissemination of information rather than questioning the rationale of eco-labelling. OECD countries were evolving labelling schemes unilaterally and developing countries were struggling to cope with them. UNCTAD was mounting technical assistance programmes to assist these countries to make adjustments, otherwise they would lose their market. The proliferation of eco-labelling schemes without multilateral agreement would spell disaster for the developing countries and further marginalize the least developed countries. There was a risk that if too many schemes emerged in the same sectors, each with its own definitions and criteria, their usefulness and credibility would be undermined. It would cause confusion, possibly discrimination, and lead to a decrease in exports for many developing countries. Before the developing countries had been able to recover from the onslaught of World Bank and IMF conditionalities, they were now faced with the additional burden of adjustment to eco-conditionalities. This was a matter of life and death for the poor countries which lacked technology and resources to deal with this new situation. This matter, therefore, deserved serious consideration by the international community. Aid agencies could play a role in assisting developing countries to promote their environment-friendly exports and take advantage of the opportunities arising from global markets.

42. He mentioned that the agenda items dealt mainly with trade and environment aspects and did not directly cover the development dimension. At the second session, there should be a discussion on the problems of producing environment-friendly products and the measures found for overcoming the inherent difficulties. There should be a thorough cost-benefit analysis of making adjustments to eco-labelling schemes in the case of selected products of export interest to developing countries. The secretariat document had made passing reference to the financing which would be needed for adjustment to the new situation created by the introduction of eco-labelling schemes, but there was no indication as to how much funds would be needed and how they would be mobilized; countries were left to themselves to cope with the situation. This ran counter to the spirit of the new partnership for development. Only one document (TD/B/CN.1/25) had devoted one sentence to the cause of the least developed countries. This was contrary to the terms of reference which called for paying particular attention to the problems of the least developed countries.

43. The representative of **India** commended the secretariat for the interesting proposals presented in its analytical documentation. The effects of eco-labelling on trade and development merited examination. The question should be raised as to whether eco-labelling schemes were really voluntary because in an international market (which was increasingly becoming accustomed to eco-labelling) a firm or an enterprise could ignore recognition of its products as being environment-friendly only at the peril of losing its market

share. While, on the one hand, environmental objectives were being promoted in one country, this effort should not, on the other hand, lead to negative effects on the economy of another country resulting in degradation of its environment.

44. At present it was still not clear to what extent environmental concerns could be met with awarding eco-labels based on production and process method (PPM) criteria. PPM methods based on life-cycle analysis did not categorically answer whether a product produced through an energy-intensive process but having less polluting effects over the rest of its life cycle was superior to a product produced with less energy but having greater polluting effects at a later stage in its life cycle. Obviously to some countries the amount of energy consumption would be an important consideration while to others lower emissions would come first and to still others, biodegradability. Therefore, uniform standards and criteria for eco-labelling might not be the right course. Neither did eco-labelling take into account the different assimilative capacities of different countries. It has also been observed that in the selection of products for such labelling schemes and in establishing criteria, the domestic industry might be consulted and could play a major role. The issue was whether this role would involve purely environmental considerations or whether the role would try to embrace market-share concerns which might lead the home industry to have those products and criteria which allowed it a greater market share.

45. If the developing countries were not involved in the identification of products and the criteria for the award of eco-labelling, they could suffer through lack of information, difficulties of adjustment to the requirements of different markets, and the expenses of testing and inspection of their products and facilities. In such a case, the small and medium-scale enterprises would be quite adversely affected.

46. The international community was attempting to engage in a comprehensive consultation process to ensure that there was no adverse effect of eco-labelling on trade and development. In so doing, it would be essential to give developing countries access on a preferential basis to clean technologies, adequate training facilities in the sectors targeted for labelling schemes and adequate time for adjustment.

47. The representative of **Mexico** stated that global industrial processes were fostering the relocation of waste-generating technologies to developing countries, in most cases without adequate policies for environmental protection. He considered that developing countries could not be responsible for the transfer and use of obsolete technologies in ecological terms, as these were the only ones to which they had access, because of the scarcity of their resources and the pressures of international competition. He further considered that innovative agreements on resource and technology transfer to developing countries should be implemented, leading to the use of environment-friendly production processes and methods, with concrete provisions to favour micro and small enterprises and improvement of infrastructure.

48. Referring to eco-labelling, he emphasized the need for further studies. It was difficult for developing countries to comply with the high thresholds established by some environmental criteria determining the eligibility of a product for an eco-label. Hence, more studies were necessary to define thresholds, in particular for products exported by developing countries.

49. With regard to process and production methods (PPMs) criteria, he stressed the need for studying the matter more carefully. Aspects that could be examined were: (a) whether the country applying a PPM-related trade measure controlled its own production; (b) if there was a possibility to identify precisely those products directly leading to environmental damage; (c) whether there were other, less trade-restrictive, means to reach the environmental objectives without resorting to the use of PPM measures.

50. The representative of the **Republic of Korea** stated that eco-labelling was primarily directed at achieving environmental objectives. However, there were concerns that eco-labelling could discriminate against imported products and foreign suppliers, in particular those from developing countries. The criteria for the application of eco-labelling were often based on life-cycle analysis or process and production methods (PPMs) in accordance with the environment and development conditions in each country. The use of criteria based on PPMs gave rise to practical as well as conceptual difficulties, particularly for imported products, since production-related environmental externalities affected the environment of the producing country.

51. He supported splitting life-cycle analysis into two separate stages, namely, that of "cradle-to-export-border" analysis and that of "import-border-to-grave". However, more detailed studies should be carried out on these approaches. Enhancing transparency and producers' participation in the development of the schemes was of crucial importance and UNCTAD, ISO and GATT/WTO could contribute to the attainment of these objectives. ISO was preparing a draft of internationally agreed guidelines on eco-labelling; these guidelines had to be negotiated with the full participation of developing countries since these countries were very concerned about the potential trade effects of eco-labelling programmes.

52. The concept of "different but equivalent" standards offered the best possible language in the UNCTAD context since it would take into consideration the environmental conditions and policy priorities of different countries. Nevertheless "different but equivalent" standards might be more readily applicable among countries at a similar developmental stage. He suggested that country-specific and sector-specific studies should be carried out to accumulate more empirical knowledge on the applicability of this concept. In closing he stressed that great emphasis should be placed on providing technical assistance to developing countries. Moreover, studies had to be carried out in the field of environment-friendly products, particularly with regard to the issues of definition and credibility.

53. The representative of **Argentina** underlined that the deliberations of the ad hoc Working Group were complementary to those within the GATT: in UNCTAD eco-labelling was analysed from the standpoint of developing countries, an emphasis which necessarily differed from that in the GATT. The important question was how the developing countries could create the eco-labelling

schemes and have the market access of the OECD countries. It was essential to take into account the interest of developing countries in existing schemes, even if it would be difficult to influence their design. The extent to which eco-labelling measures were voluntary and whether they were covered by the Technical Barriers of Trade Agreement was not clear. UNCTAD could provide important inputs into the GATT negotiating process even though the actual rules were determined in the GATT.

54. It was necessary not only to avoid trade-distorting effects of eco-labelling but also to substantiate environmentally positive effects. In this area, he considered it necessary to involve UNEP in the work, in order to develop the concept of equivalence of environmental criteria. Another important requirement was to internalize environmental externalities wherever they occurred. Thus, work on life-cycle analysis should include developing criteria on the basis of externalities at each production stage on the site where they occur and should be adapted to local production conditions.

55. Finally, he stressed that UNEP should focus on the concept of "equivalencies", while UNCTAD should strengthen its technical cooperation activities, particularly with a view to developing criteria for certification. In addition, UNCTAD should examine mechanisms for improving access to markets where eco-labelling schemes currently existed.

56. The representative of **Thailand** said that his country had recently emerged as one of the major export-oriented developing economies. He went on to describe developments pertaining to eco-labelling in his country. A recent report on the introduction of a "green label" scheme in his country had been prepared by the Thai Government, industry and business community, with the assistance of an expert from the Federal Environmental Agency of Germany. Subsequently, the Ministry of Industry had established the "Thai Green Label Scheme" headed by a board composed of members from relevant agencies. The Board selects product groups for consideration for eco-labels and takes decisions on the basic priorities of the eco-label scheme, the criteria for a product group, the structures and level of fees for the eco-label and the supporting activities. Subsequently, technical and review committees and sub-committees will be established. The technical committees will develop criteria for the eco-labelling scheme and deal with special product groups. Composed of experts from industry, consumer organizations, environmental groups and others, as appropriate, these technical committees will develop proposals for an eco-label. The review committee will consist of representatives of the interest groups concerned as well as the public. It will discuss the proposals of the board before decisions are taken. Supporting subcommittees will be established or experts invited to carry out specific tasks. Recently, a draft report on the interlinkages between trade and environment, financed by UNDP, was completed in June 1994. This report pointed out that, to date, the impacts of eco-labelling in Thailand's key markets, i.e. North America, East Asia and Europe, had not been significant. He mentioned that none of the Thai export promotion offices had heard of products from Thailand that had either been granted or refused an eco-label.

57. The representative of **Colombia** stated that eco-labelling schemes had considerable impacts on the trade and export competitiveness of firms from developing countries. This affected, in particular, small firms which could

not absorb the costs implied in the use of cleaner technologies, environment-friendly raw materials and more sophisticated but also more expensive production processes. She stated that the majority of the existing schemes were promoted by domestic industries in developed countries but the products selected were in most cases those for which developing countries had an export interest, such as textiles, footwear and flowers.

58. The investment needed in order to comply with eco-labelling criteria could be justified when developing country exporters had secure access to markets in developed countries. In regard to the Colombian experience with the introduction of eco-label schemes for textiles and flowers, difficulties had arisen in assessing the opportunities that eco-labelled products would enjoy in foreign markets. There was no empirical evidence of the extent to which such labelling would result in greater market opportunities or in terms of returns on investment.

59. As to further action, she suggested three broad areas: first, carrying out studies leading to mutual recognition of standards and eco-labelling schemes and of the concept of equivalence; secondly, undertaking studies to establish empirical evidence concerning the environmental impact of products, processes and raw materials, so that measures for environmental protection could be targeted to those that were the most harmful to the environment, and finally technical cooperation as a high-priority area of action.

60. The representative of **Austria** mentioned that full-cost pricing could be approached through appropriate policies and measures that would promote internalization of environmental externalities, but that this was unlikely to be attained in the near future. Therefore, it was suggested that in parallel with striving to promote progress towards the achievement of full-cost pricing, efforts which promised success in the short or at least medium term would have to be pursued. One approach would be to reduce the environmental impact of consumption by identifying environmentally preferable products with less harmful environmental impacts during their life cycles, and to increase the awareness of consumers and industries about the existence of such alternatives. In this context, public awareness of environmental concerns would induce producers to take into account these concerns and to make efforts towards internalizing environmental costs. Providing consumers with convincing evidence of such efforts would enable them to make environmentally sound purchasing decisions and in turn increase the availability of information on environmental aspects of products.

61. Lack of full scientific proof for the environment-friendliness of products should not be used as a reason for postponing cost-effective measures to prevent environmental degradation. A pragmatic step-by-step approach should strive to reduce this lack, by continuing to generate, collect and systemize scientific knowledge with regard to the factors likely to indicate products that were environmentally preferable and having less harmful environmental impacts during their life cycles.

62. The representative of the **United Nations Industrial Development Organization** (UNIDO) stated that the Industry and Environment Programme Activity Centre of the United Nations Environment Programme (UNEP IE/PAC) and UNIDO were jointly launching a new field programme on a pilot basis to promote

cleaner production. This programme supported national cleaner production centres in approximately 20 countries for a 5-year period. Cleaner production, also called pollution prevention and waste minimization, eliminates waste at the source, thereby improving environmental quality and often even enhancing profitability. Cleaner production requires the continuous application of an integrated preventive environmental strategy to processes and products to reduce risks to humans and the environment.

63. The national cleaner production centres would augment ongoing UNIDO technical assistance activities in this area by promoting cleaner production and serving as national focal points to (a) improve awareness of the problem and provide information; (b) offer training and human resource development in cleaner production and clean technologies; (c) carry out sectoral and cross-sectoral demonstration projects, in order to ensure a multiplier effect; (d) provide the link and ensure cooperation between industries and national government agencies. Owing to the parameters of this UNIDO activity, there was a limit to the range of clean technologies demonstrated, with a focus on small and medium-sized enterprises. UNIDO would work closely with the centres to provide on-going support. The centres would be managed by experienced nationals of the countries concerned and set up preferably in existing institutions. Phase I of the programme would provide funding for eight centres for three years. This phase would also determine the demand for such centres in developing countries because all of them, together with the economies in transition, had been invited to participate. Individual centres would develop both five-year and annual work plans and implement the activities so planned. There would be an advisory board review. Phase II of the programme would provide funding for the 8 centres for 2 additional years and for 5 years for 14 or more new centres, depending on the availability of funding which would be requested from special-purpose donors to the Industrial Development Fund of UNIDO. In addition, bilateral support was anticipated for both phases for consultants and demonstrations.

64. To date, 39 organizations/institutions from 25 developing countries had transmitted requests to become national cleaner production centres. In November 1993, an external review panel met and drew up a short-list of nine institutions in nine countries which were visited by UNIDO/UNEP representatives in 1994. Representatives of six developing countries and two countries with economies in transition were invited to a UNIDO/UNEP High-level Advisory Seminar on Cleaner Production in Warsaw, in October 1994. The seminar was followed by a larger training programme for national cleaner production centre personnel; the final selection of centres was to be made during November 1994 by a panel of UNIDO/UNEP representatives.

65. The representative of the **United States of America** welcomed the work of UNCTAD in the area of eco-labelling and certification of environment-friendly products. He agreed that it was particularly necessary to focus on eco-labelling schemes where there was government involvement, as such schemes could imply government endorsement of the product in question. He recalled that eco-labelling was intended to give consumers the opportunity to factor environmental considerations into their purchasing decisions. As such, it was intended to reward producers who met these consumer preferences by allowing them to increase their sales and/or prices. In so doing, eco-labelling promoted sustainable development. While eco-labelling schemes had not posed

significant trade problems in the past, concern over market access was gaining attention. It should not be forgotten, however, that by providing a way of identifying environment-friendly products, eco-labelling could create new markets for such products or allow producers to sell at a higher price. On the issue of transparency, he said that perhaps the best way to avoid discriminatory eco-labelling practices was through greater transparency in the selection of product categories, criteria and thresholds, and that third-country producers should be able to participate where their interests were affected. However, participation need not be limited only to producers: the process had to be equally open to consumer representatives, technical experts, non-governmental organizations, and suppliers of relevant environmental goods and services. The new Technical Barriers to Trade Agreement provisions calling for publication of a notice, opportunity for comment, and establishment of "enquiry points" were useful ideas which had relevance to eco-labelling. ISO's initiative to develop guidelines for eco-labelling was also useful. However, it remained the responsibility of the eco-label authorities to establish actual criteria and thresholds.

66. On the process and production methods (PPMs) issue, he said that the United States shared the concerns of developing countries about the risks of discrimination and trade protection in eco-labelling schemes. Where PPM criteria addressed local environmental harms, there might be merit in making allowance for differing local conditions, not only among countries, but even within countries. However, process impacts should not be ignored in eco-labelling schemes, nor relegated to an enquiry as to whether local environmental regulations were met, since the purpose of eco-labelling was not to encourage compliance with government regulations but rather to encourage producers to improve the environment-friendliness of their products. The overall environmental impact of a product might include a substantial contribution from the production process and thus be of direct interest to the consumer. The proper approach to PPMs lay somewhere between the two extremes of excluding them from any consideration, or insisting on a rigidly uniform approach. PPMs had to be addressed on a case-by-case basis. On the issue of verification, eco-labelling had been, in part, a response to the boom in "green marketing" and to scepticism regarding the reliability of environmental claims. Credible verification was thus essential, not only to protect the consumer, but also to protect those producers who had spent time and money on complying with eco-criteria. Third-party certification was therefore essential. There might however be ways to minimize the cost and disruption of the verification process. Possibilities suggested in the UNCTAD secretariat's paper included using international certification firms or building up verification capacity in developing countries. On mutual recognition and equivalency, mutual recognition required "mutual confidence" among eco-labelling and certifying authorities. However, it was a concept that had just been added to the rules of the multilateral trading system and the results remained to be seen. The concept of equivalency also required further analytical work, especially if it was used in a different way than product standard equivalency. It would be important to have the input of the environmental community before defining and assessing the efficacity of these approaches in the eco-labelling context.

67. Regarding environment-friendly products, the distinction drawn in the UNCTAD paper between eco-labelling and the identification of such products seemed rather hazy. Moreover, consumer boycotts did not belong among the topics; in any case, it was not for Governments to dictate consumer preferences. One aspect of promoting consumer confidence in manufacturer's environmental claims (Type II labelling) that had been somewhat underestimated was the experience of several Governments in developing guidelines for truth in environmental advertising. In the United States, such guidelines were issued jointly by the Federal Trade Commission and the Environment Protection Agency in 1992. Finally, he said that the issues raised in the context of eco-labelling fell within the mandate of several international organizations, therefore it was important to make use of the expertise of each of them, while avoiding duplication of work. UNCTAD had an important role to play in analysing this issue and further exchanges in the future should prove fruitful.

68. The representative of **Ethiopia** emphasized the need for the participation of developing countries, including the least developed countries, in the debate on eco-labelling and market opportunities for environment-friendly products, since these issues had a great impact on their economic growth, in general, and their export growth, in particular.

69. Many developing countries had not yet identified their experts in this field and so emphasis should be given to the widest possible participation of experts from the developing countries, and particularly the least developed among them. In this context, the need was stressed for technical assistance to developing countries, including especially the least developed. Developing countries should identify their needs and the areas of technical assistance requirements. The topic of technical assistance should be discussed under a separate item in the future deliberations of the Ad Hoc Working Group.

70. The representative of **Australia** reported that his country did not have any Type I eco-labelling schemes involving third-party certification, although an attempt had been made to initiate one a few years ago. He then noted that UNCTAD was well placed to make a particular contribution to the work on trade, environment and development and commended the secretariat for its work. One of the most important contributions which UNCTAD and the Working Group could make to the debate on trade and environment was the sharing of experiences and the encouragement of a wide-ranging policy debate. The Working Group and other appropriate forums should explore the scope for international cooperation to address issues such as the concerns raised in relation to eco-labelling schemes. The guiding principle should always be the search for equitable and cooperative solutions to problems of global concern, whether environmental, trade or developmental issues.

71. When the introduction of measures such as eco-labelling schemes were being considered, and certainly where there was Government involvement in such schemes, an appropriate range of agencies should be involved to ensure that environment, trade and development considerations were all taken into account in the decision-making processes, and that concerns such as transparency, participation and avoidance of discriminatory practices were addressed.

72. In many cases, the problems in the application and implementation of measures such as eco-labelling schemes, on the one hand, and exploring market opportunities for environment-friendly products, on the other hand, could be addressed together. For this to happen, the means should be found to turn the instruments which at first sight appeared to be creating problems into positive tools for advancing the developmental and environmental objectives of promoting sustainable development.

Chapter II

PROCEEDINGS OF THE 4TH (CLOSING) PLENARY MEETING

A. Action by the Ad Hoc Working Group

73. At the Ad Hoc Working Group's 4th (closing) plenary meeting on 2 December 1994, the Chairman introduced a summary (TD/B/WG.6/L.3) based on the views expressed and the discussions held during the session.

74. At the same meeting, the Ad Hoc Working Group decided to annex the Chairman's summary to the report of its first session. For the text of the summary, see annex II.

B. Closing statements

75. The representative of **Bangladesh** said that he wished to put on record a point which his delegation had laboured very hard to put across during the session, namely that some international agreement or discipline was needed on eco-labelling. Regrettably neither the report nor the Chairman's summary had reflected this point. He therefore expressed the intention to provide a revised summary of his statement for inclusion in the present report.

76. The **Chairman** recalled that during the forty-first session (part I) of the Trade and Development Board it had been agreed that "environment-friendly" goods and eco-labelling should be the first subjects discussed by the Ad Hoc Working Group. The workshop on eco-labelling, organized by UNCTAD in June 1994, had demonstrated that these questions were both highly relevant and very complicated. The issues involved in reconciling trade and environment concerns were cross-sectoral by definition. Consequently, they were also cross-organizational, both within national administrations and in terms of intergovernmental cooperation. This fact had been highlighted at the UNCTAD/UNEP informal ministerial meeting held during the previous week. Eco-labelling posed additional difficulties in that considerations beyond trade and environment could be involved. Even the terminology used in discussing the subject contained ambiguities which had not yet been clarified completely; the eco-labelling systems themselves varied considerably. The complexity of the subject was also reflected in the basic mandate which was circumscribed by such words as "examine", "identify", "analyse", "explore", "study" and "inform". The mandate clearly did not involve the drafting of rules. In the triad "trade, environment and development", special emphasis was to be placed on the word "development", particularly in the context of treating the problems of the developing countries. The Working Group's mandate was unique in the sense that UNCTAD was the only forum dealing with such matters on a global scale. Although all countries shared essentially the same goal - that of reconciling the formal rules of trade with the requirements of environmental protection - the time perspective was not yet clear. It was nevertheless becoming daily more evident that environmental questions could not wait nor could mitigation of the problems and challenges posed for trade be delayed. The preponderance of market-related phenomena had given rise to two perplexing questions. Could all adverse effects be captured within rules? How could the positive trading opportunities best be seized, especially by the developing countries? The latter question had been raised

during the session but had not been discussed extensively. At this early stage of the Group's work, analysis and the dissemination of information were paramount tasks. There was no alternative to pursuing the work despite the fact that increasing knowledge was seldom a painless undertaking and the ramifications of the subject might appear overwhelming. All countries had a stake in finding solutions: vexing problems could arise between industrialized countries in relation to trade and the environment; the grave and justified concerns of the developing countries whose capacity to adapt was often limited and where the consequences of new requirements might go well beyond trade to basic development questions had to be addressed. Hence the Group's decision to continue work on this subject meant that eco-labelling would be carried over as one of two substantive items on the next agenda.

77. He then turned to procedural questions and ways in which work in future might benefit from lessons that could be drawn from this first session. Delegations might consider it useful to give further consideration to how to view the relationship between diagnosis and prescription, and the ways in which the basis for participation in the debate could be broadened; how to focus the work timewise merited attention and likewise how to reduce the formalities. He then announced that he was planning to convene informal discussions among the Missions in Geneva as soon as the documentation for the second session had been issued. In that documentation an attempt would be made to outline some of the questions to be answered, it being understood that any such list would not be exhaustive. This approach might also facilitate purposeful debate.

Chapter III

ORGANIZATIONAL MATTERS

A. Opening of the session

78. The first session of the Ad Hoc Working Group was opened on 28 November 1994 by the Officer-in-Charge of UNCTAD.

B. Election of officers

79. At its 1st plenary meeting on 28 November 1994, the Ad Hoc Working Group elected its officers as follows:

Chairman:	Mr. A. Hynninen	(Finland)
Vice-Chairmen:	Mr. S. Djajadiningrat	(Indonesia)
	Mrs. R. Mrabet	(Tunisia)
	Mr. G. Thielen Graterol	(Venezuela)
	Mr. B. Diekmann	(Germany)
	Mr. Y. Afanassiev	(Russian Federation)
Rapporteur:	Mr. B. Alipour	(Islamic Republic of Iran)

C. Adoption of the agenda and organization of work

80. At its 1st plenary meeting on 28 November 1994, the Ad Hoc Working Group adopted its provisional agenda (TD/B/WG.6/1) as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. International cooperation on eco-labelling and eco-certification programmes

   (a) Comparative analysis of current and planned programmes, with a view to discussing concepts such as mutual recognition and equivalencies;

   (b) Examination of possible ways to take into account the interests of developing countries in the elaboration of eco-labelling criteria 2/

4. Market opportunities for "environmentally friendly" products

   - Ways and means to define and certify environmentally friendly products

5. Provisional agenda for the second session of the Ad Hoc Working Group

6. Other business

7. Adoption of the report of the Ad Hoc Working Group to the Trade and Development Board.

D. Provisional agenda for the second session of the Ad Hoc Working Group

(Agenda item 5)

81. At the 4th (closing) plenary meeting of its first session, the Ad Hoc Working Group approved the provisional agenda for its second session (for the provisional agenda, see annex I).

E. Other business

(Agenda item 6)

82. The representative of **Finland** announced that his Government had decided to finance an associate expert to enhance the UNCTAD secretariat's capacity to serve member Governments and especially the developing countries, in view of the increasing workload and as a sign of the importance placed on UNCTAD's work in the field of trade, environment and development.

F. Adoption of the report of the Ad Hoc Working Group to the Board

(Agenda item 7)

83. At the closing plenary meeting of its first session, on 2 December 1994, the Ad Hoc Working Group adopted its draft report (TD/B/WG.6/L.1 and Add.1 and 2) with a number of amendments and authorized the Rapporteur to complete the report in the light of the proceedings of the closing plenary.

Notes

1/ For the terms of reference of the ad hoc Working Group on Trade, Environment and Development, see Trade and Development Board decision 415 (XL): Mid-term review (annex) (TD/B/40(2)/26).

2/ The outcome of the discussion on this item at the first session will be taken up by the Working Group at a subsequent session when it comes to deal with paragraph 1 of its terms of reference on the effects of environmental policies, standards and regulations on market access and competitiveness.

Annex I

PROVISIONAL AGENDA FOR THE SECOND SESSION
OF THE AD HOC WORKING GROUP

1. Election of officers

2. Adoption of the agenda and organization of work

3. Effects of environmental policies, standards and regulations on market access and competitiveness, with special reference to developing countries, including the least developed among them, and in the light of UNCTAD empirical studies

4. Trade, environment and development aspects of establishing and operating eco-labelling programmes

5. Provisional agenda for the third session of the ad hoc Working Group

6. Other business

7. Adoption of the report of the ad hoc Working Group to the Trade and Development Board.

Annex II

CHAIRMAN'S SUMMARY

1. The first session of the ad hoc Working Group on Trade, Environment and Development discussed market opportunities for environment-friendly products and eco-labelling, in accordance with the terms of reference adopted by the Trade and Development Board. The discussions of the Group were aided by the high-quality documents prepared by the UNCTAD secretariat and the presentations made by representatives of GATT, OECD, UNEP and ISO. The discussions were considered rich, useful and timely. It was felt that the issues addressed were complex and that more analysis was needed before the Group could arrive at substantive conclusions.

I. Environment-friendly products

2. With respect to "environment-friendly" products (EFPs), it was acknowledged that environmental concerns and policies might generate market opportunities, but might also create a barrier to trade. However, the Group noted that it was difficult to identify and define EFPs. Given that no product is absolutely environmentally friendly, it was considered essential to ensure that environmental claims be credible, take account of consumer interests and support fair competition. It was also felt that environmental labelling could often be an important way for increasing the credibility of environmental claims and for facilitating exports of EFPs.

3. Many products, such as pharmaceutical, beverage and food products, were excluded from eco-labelling, because of several operative quality standards for such products which also incorporated environmental characteristics. Verifying the environmental claims of other products could include suppliers' declarations on which codification work was being undertaken by ISO (defined by ISO as Type II labelling).

4. It was agreed that more work was needed to specify ways and means by which the credibility of environmental claims could be substantiated. It was felt that there was a need to develop criteria for identifying EFPs. It was also pointed out that environmental claims were marketing instruments similar to other forms of advertisement. Technical assistance would be required to establish mechanisms for certifying or substantiating such claims and for facilitating the exports of EFPs from developing countries. Also such promotion measures as endorsement by environmental or consumer groups and third-party certification by national or international standardizing bodies could be useful.

II. Eco-labelling

General Considerations

5. While eco-labelling was primarily geared to reducing the environmental impact of a product throughout its life cycle, such labels might have adverse trade and competitiveness effects. Some delegations cautioned against the proliferation of eco-labelling schemes and felt that an analysis of costs and benefits of eco-labelling schemes in terms of their trade, environment, and development effects would be useful. It was highlighted by several

participants from developing countries that the costs involved in complying with eco-criteria might be high, particularly for small-scale producers. Although developing countries might be at more of a disadvantage, other trading partners could also feel negative trade effects.

6. Eco-criteria which were based on environmental and technological conditions in the importing country might imply significant costs for foreign producers and might also be environmentally less appropriate in the context of local conditions.

7. The relationship between eco-labelling and the Technical Barriers to Trade (TBT) Agreement of the GATT was felt to be unclear. It was understood that this matter would be further pursued by the WTO. It was also mentioned that the issue of government involvement in these schemes might be a relevant factor in this context. Moreover, delegations stated that the implications of the TBT Agreement seemed to extend beyond transparency to include important substantive elements such as equivalency, mutual recognition, dispute settlement, and technical assistance.

8. Noting the increased use of life-cycle analysis, several delegations felt that it raised several conceptual and practical difficulties. The use of process-related criteria in eco-labelling schemes was widely discussed. It was argued that specific process-related criteria might not be as effective and relevant in terms of environmental protection in the exporting country as they were in the importing country. In this context, differences in assimilative capacity and the importance of the development dimension were pointed out. Moreover, it was stressed that the use of process-related criteria could raise issues of extra-territorial application of the environmental priorities of the importing country.

9. Where process-related criteria addressed local environmental problems, many delegations felt that differing criteria across countries could be allowed. Some delegations stressed that information on process-related criteria was necessary to establish the credibility of these schemes in the eyes of consumers. Others, however, pointed out that eco-labelling based on specific process-related criteria used in importing countries might not provide the consumer with the relevant information on the environmental effects of the product in the producing country.

Transparency

10. Improved transparency of eco-labelling schemes would be the first step in mitigating any potential adverse trade effects of such schemes. The Group identified several elements of transparency. A distinction was made between active and passive transparency. While the latter might involve the provision of information by eco-labelling authorities when requested by trading partners, the former might imply automatic notification to all parties. A distinction was also made between <u>expost</u> and <u>exante</u> transparency. For purposes of trade, <u>exante</u> transparency was considered to be especially important.

11. One major practitioner of eco-labelling outlined the detailed steps undertaken to enhance transparency, including the establishment of enquiry points and information campaigns.

12. A number of delegates mentioned that in the case of eco-labelling, transparency provisions under GATT and under the new TBT Agreement, such as publication, notification, right to comment, and obligation to take comments into account, would be useful. However, it was suggested that for products or product groups where imports accounted for a significant share of the domestic market, transparency provisions could go further. Participation of interested parties, especially foreign producers and importers, was considered essential in the determination of eco-criteria and in the demarcation of product categories.

13. Since it might be difficult for developing countries to participate effectively in the eco-labelling processes in other countries, it was considered useful to target a few product categories of significant export interest to them. Their active participation in the determination of eco-criteria for such product categories should be encouraged.

14. Several delegations pointed out that improved transparency would not in itself be sufficient to reduce the potential adverse effects of eco-labelling.

Guidelines

15. The Group commended the useful work of ISO in drafting guidelines on environmental labelling. In the trade context, these guidelines could be useful in ensuring that eco-labelling schemes were non-discriminatory and transparent. It was felt that there were important linkages between the work of UNCTAD and that of ISO. The active participation of developing countries, especially the least developed among them, would be important in ensuring a balanced outcome of the ISO process. The provision of technical assistance for facilitating their participation would be of material significance.

Mutual Recognition

16. Many delegations stressed that mutual recognition of eco-labels would be a desirable objective to render trade and environment interests compatible. However, it was felt that this was a complex issue requiring more analytical work. It was also mentioned that, in some respects, mutual recognition in the context of eco-labelling was conceptually different from that defined in the Uruguay Round TBT Agreement.

17. The Group agreed that the concept of mutual recognition should be examined closely. Frequent reference was made to the option whereby the eco-labelling programme of the importing country would agree to award its own eco-label to products which met the process-related criteria of the exporting country and the use and disposal criteria of the importing country. In this context, a number of countries suggested that life-cycle analysis for traded products could be split into "cradle to export border" and "import border to grave".

Equivalency

18. Mutual recognition can only benefit countries which already have national eco-labelling programmes. In other cases, the concept of "equivalency" might be useful. Such a concept in the context of eco-labelling might be substantially different, in several respects, from that defined in the TBT Agreement.

19. A number of suggestions regarding the establishing of "equivalency" would take account of comparable environmental objectives, different ways of achieving them, and differences in environmental and developmental conditions across countries. Some delegations stressed that UNEP should pursue studies to determine a basis for establishing environmental equivalency.

III. Technical assistance

20. Considerable emphasis was placed on the need for increasing technical assistance in defining, certifying, and promoting trade in EFPs and in adjusting to existing eco-labelling schemes. Increased attention could also focus on technical assistance designed to help developing countries to set up their own eco-labelling programmes and improve their certification procedures. Dissemination of information would be particularly useful. It was also considered necessary to identify sources of technical assistance. In this context, attention was drawn to multilateral and bilateral sources such as ISO, ITC, and technical assistance provisions under the TBT Agreement of GATT.

21. UNCTAD was encouraged to continue its technical assistance programme, particularly in promoting a better understanding of the linkages between trade, environment and development aspects of eco-labelling through its conceptual, empirical and analytical work. This could contribute to the informed and effective participation of developing countries, particularly the least developed among them, in international deliberations.

IV. Future work of UNCTAD

22. It was mentioned that eco-labelling fell within the mandate of several international organizations and it was necessary to make use of the expertise of each of them. UNCTAD's work was considered to be of high value, particularly with respect to the trade and development aspects of eco-labelling. UNCTAD was encouraged to continue sectoral studies in collaboration with experts and researchers in developing countries. Further discussions on these issues and inter-sessional activities of the Working Group might be necessary.

Annex III

MEMBERSHIP AND ATTENDANCE d/

1. The following States members of UNCTAD, members of the ad hoc Working Group, were represented at the session:

Algeria
Argentina
Australia
Austria
Bangladesh
Brazil
Canada
China
Colombia
Costa Rica
Cuba
Czech Republic
Denmark
Egypt
Ethiopia
Finland
France
Germany
Greece
Honduras
Hungary
India
Indonesia
Iran (Islamic Republic of)
Jamaica
Japan
Kenya
Madagascar
Malaysia
Mexico
Netherlands
Norway
Pakistan
Paraguay
Peru
Philippines
Poland
Portugal
Qatar
Republic of Korea
Romania
Russian Federation
Saudi Arabia
Slovakia
Switzerland
Thailand
Tunisia
Turkey
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Venezuela
Zambia

2. The following other States members of UNCTAD, not members of the ad hoc Working Group, were represented as observers at the session:

Angola
Bahrain
Belgium
Bolivia
Ecuador
El Salvador
Iraq
Ireland
Italy
Lebanon
Mongolia
Morocco
Myanmar
Nepal
New Zealand
South Africa
Spain
Sri Lanka
Sweden
Syrian Arab Republic
Trinidad and Tobago
Ukraine
United Arab Emirates

d/ For the list of participants, see TD/B/WG.6/INF.1

3. The United Nations Department for Policy Coordination and Sustainable Development, United Nations Department for Economic and Social Information and Policy Analysis, United Nations Economic Commission for Europe and United Nations Environment Programme were represented at the session.

The International Trade Centre UNCTAD/GATT was also represented at the session.

4. The following specialized and related agencies were represented at the session:

Food and Agriculture Organization of the United Nations
World Health Organization
International Monetary Fund
United Nations Industrial Development Organization

The General Agreement on Tariffs and Trade was also represented.

5. The following intergovernmental organizations were represented at the session:

European Community
International Textiles and Clothing Bureau
League of Arab States
Organisation for Economic Co-operation and Development
Organization of African Unity

6. The following non-governmental organizations were represented at the session:

General Category

International Bar Association
International Chamber of Commerce
International Council of Voluntary Agencies
International Organization for Standardization
Women's International League for Peace and Freedom
World Federation of United Nations Associations
World Veterans Federation

Special Category

International Organization of Consumer Unions
Public Services International

7. The following non-governmental organizations participated by decision of the ad hoc Working Group:

International Council of Environmental Law
World Wide Fund for Nature

كيفية الحصول على منشورات الامم المتحدة

يمكن الحصول على منشورات الامم المتحدة من المكتبات ودور التوزيع في جميع انحاء العالم . استعلم عنها من المكتبة التي تتعامل معها أو اكتب الى : الامم المتحدة ،قسم البيع في نيويورك او في جنيف .

如何购取联合国出版物

联合国出版物在全世界各地的书店和经售处均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez-vous à : Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.

Printed at United Nations, Geneva
GE.95-50143–February 1995–3,280

United Nations publication